

Point 1. of the Staff Committee assignment reads as follows:

Prepare an analysis of the trade between the United States and the Soviet bloc countries with the exception of Poland for the purpose of determining the impact of United States and CoCom trade controls on such trade.

1. U.S. exports to Soviet bloc: Level - \$232 million in 1947 dropping rapidly to \$17 million in 1950, \$8 million in 1952 and rising to \$13 million in 1957. USSR share dropped faster than for satellites; USSR quarterly 1947 average of \$37.3 million dropped by quarters in 1948 to \$20.8, \$4.2, \$1.7 and \$1.2 million respectively; USSR share now about 40%.

Composition - Metals and manufactures and machinery and vehicles were largest classes in 1947 exports - 62% of total; these are reasserting themselves along with chemicals and related products in current exports; most significant areas of current demand are chemical plant and technology. (See Tab 1.)

2. U.S. Imports from Soviet bloc: Level - \$97.6 in 1947 increasing to \$114.1 million in 1948, and dropping to \$28.9 million in 1952 and remaining between \$20.4 and \$38.4 million annually since then with USSR accounting for over 50%. Imports from USSR were \$72.2 million in 1947, rose to \$86.2 million in 1948 and dropped to \$42.5, \$40.3, \$32.3, \$16.8 and \$10.8 for following years through 1953.

Composition - Imports were concentrated in inedible animal products and metal classes in 1947-1948. In 1956-1957 the major classes were chemicals (benzene) and inedible animal products. Drop in imports from USSR between 1948 and 1950 was largely accounted for by manganese and chromium export stoppage, stoppage in returning lend-lease vessels and significant drop in fur exports. Drop between 1950 and 1953 probably due to U.S. legislation on fur imports. Manganese and chromium stoppages are assumed to be in retaliation for U.S. export control policy. (See Tab 2.)

3. Impact of Controls on U.S. trade with Soviet bloc:

- A. In 1948 - 1950 Period: Imports - dropped from \$114.1 million in 1948 to \$70.9 million in 1950; caused by drops in Russian exports, as indicated above. Imports from satellites increased by about \$3 million.

Exports - dropped from \$232.2 million in 1947 to \$67.6, \$38.5 and \$17.8 million in following 3 years. Drop accounted for in part by U.S. Governmental policy on export controls; dropping or running out of economic assistance to Soviet bloc and the USSR increase in trade with the rest of Eastern Europe. Impact on U.S. industry was modest because order books were full from both domestic and friendly foreign orders, some items still under short supply controls, and many shipments to Soviet bloc were still being approved.

**\*DOC Exempt Letter In ERU File\***

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In March 1948 - February 1950 period of \$181.3 million of license applications for Soviet bloc, \$80.2 million were approved and \$101.3 million were denied - See Tabs 4 and 5 for illustrative cases. Requests for export were concentrated in industrial materials and equipment of more advanced types. Bloc trade small percentage of total U.S. exports. Replacement of U.S. exports by other Free World sources was small during this period since other Free World industrial countries were most concerned about reestablishing their industrial economies and repairing war damage; they were also dependent on U.S. for most technical, material and financial assistance; Marshall Plan had begun.

- B. In 1951-52-53 Period: Imports - fell from \$61.8 million to \$20.4 with 1953 representing lowest level in total 1947-58 period. Decline showed equally by USSR and satellites. All classes fell except chemicals where imports from satellites trebled. Major causes for fall to 1/3 of 1951 level attributable to Korean War.

Exports - \$2.1, \$.8 and \$1.2 million respectively; low level probably accounted for more by influence of Korean War and impact of military demands of U.S. and Allies than by U.S. control policy although latter tightly administered. Impact on U.S. industry was small because total domestic and foreign trade at high levels, fewer bloc orders, materials in tight supply. Replacement of U.S. exports by other Free World sources remained small because CoCom had agreed control broad spectrum of strategic goods and significant export availability of many of them still lay ahead; however, era of heavy dependence on U.S. economic aid was closing in favor of military aid program.

- C. In 1954 - 1958 Period: Imports - \$21.3, \$29.2, \$38.4 and \$30.9 million through 1957; three quarters 1958 were \$24.5 million. Increase due primarily to benzene purchases from USSR.

Exports - Annual exports did not exceed \$13.1 million. Low level in early part of period largely due to tight control policy, negative orientation of industry on such trade, planned rapid increase in inter-bloc trade, and, most importantly, relatively few orders from the Soviet bloc. During latter period probably caused by lack of orders in most fields, lack of clear governmental policy in chemical plant and technical data fields; government policy remained tight on strategic goods and favored export of most other goods. Impact on U.S. industry was of some significance because of presence of attractive trade offers in some fields (See Tabs 6, 7 and 8), evidence that Soviet bloc had advanced far in military and industrial fields, and fluctuations in domestic business levels. Some groups not interested because of assistance such exports may be to Bloc's economic penetration, market disruption activity and general economic competition - warfare challenge issued by Khrushchev. But total probable export trade would be small percentage of total U.S. exports. Replacement of U.S. exports by other Free World countries was significant during this period. CoCom list reviews of 1954 and 1958 removed from CoCom

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control important industrial material and equipment areas. Changes in U.S. controls were not as broad and U.S. denial policy remained broader than CoCom's. Significant shipments to Soviet bloc from CoCom countries occurred (See Tab 3 for European CoCom country exports) for which U.S. firms could probably have competed successfully on basis of quality and availability.

4. What lies ahead for U.S. trade with Soviet bloc? The answer to this question lies largely in the degree of severity which will characterize the "cold war" in the future. Allowing for no radical change in the intensity of the "cold war" the following elements will primarily influence the extent and character of U.S. trade with the Soviet bloc:

The character of U.S. trade control objectives and scope of U.S. denial policy;

The need of the Soviet bloc for exports from the U.S.;

The willingness of the Soviet bloc to finance its imports from the U.S.;

The extent to which multilateral controls are and will continue to main sufficiently broad and severe; and

The extent to which present or probably unilateral U.S. controls can have effective results in terms of basic U.S. control objectives.

The extent to which alternative sources are available in Western Europe.

- A. Character of U.S. trade control objectives and scope of U.S. denial policy: Basic objective remains - to deny or limit the flow to the Soviet bloc of goods, technology and services where such action would significantly retard or limit the growth of the Soviet bloc's war potential - with regard to both its direct military machine and the industrial base to support and advance its military machine. This objective reflects a selective control concept; one alternative is to institute a total embargo; another is broaden the objective to include selective measures to restrict or retard the bloc's ability to broaden and intensify its economic penetration and other economic warfare measures against the Free World.

The scope of the U.S. denial policy has generally reflected a balanced judgment on the effectiveness of a control. On this basis the scope of U.S. denial policy has been progressively narrowed. Major factors were internal Soviet bloc military and industrial advances, commercial desires of Free World industrial countries leading to drastic revision of multilateral controls, greater sharing of Free World leadership requiring substantial compromise by U.S. in trade control program in interest of other elements of U.S. foreign policy. The scope of the denial policy has also embraced the selective serving of other U.S.

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policy objectives. The future scope will continue to depend largely on the above factors plus decisions regarding a broadening of the objectives and the extent to which ample and effective intelligence and technical effort can be diverted to keeping control lists up-to-date and the extent to which adequate control techniques are developed for technical data.

Soviet bloc desire for exports from U.S.: In certain areas the Soviet bloc still stands in need of Free World technology, plant, materials and equipment in a number of areas if certain aspects of its war potential are to match that of the U.S. and certain other parts of the Free World. Not all of these are areas in which U.S. developments and production are best. Fortunately, in some of these areas - e.g., electronics, communications, numerous electronic components and equipment, and certain metals - reasonably good multilateral controls exist. For many of these items U.S. quality and availability would probably make the U.S. a preferred permanent source if shipment were permissible. In other areas the U.S. has reasonably good unilateral control over the best technology, plant and processes. Metal rolling mills, certain chemical plant processes, design and operation techniques, iron ore processing technology and advanced refrigeration equipment are examples of areas in which the Bloc's needs are most clearly relevant to U.S. exports. By its own programs and reports the Bloc reflects its need for such technology and equipment from the U.S. For these and related items U.S. export to the Soviet bloc could probably far surpass present levels of trade with that area if U.S. controls permitted and if the Bloc could pay for such imports from the U.S.

Ability of Soviet bloc to finance its imports from the U.S.: The bloc could finance purchase from the U.S. by any of the following means: exports to the U.S. of Soviet bloc products, exports to the U.S. of products procured from third countries, gold sales, credits and sales by the Soviet bloc of goods and services in other countries. Under presently foreseeable circumstances it is unlikely that the U.S. will extend credits to the Soviet bloc and even more unlikely that other Free World countries would extend credits for the purchase of goods from the U.S. The USSR has significant gold reserves which, however, have and will probably continue to be used sparingly for foreign trade purposes. The reexport to the U.S. of goods from third countries would have limited potential since the third country would react strongly against such trade activity particularly by the Soviet bloc. So long as the U.S. keeps reasonable faith with its normal Free World suppliers there is limited opportunity for Soviet bloc exports to the U.S. However, some firms appear willing to purchase from the Soviet bloc materials presently supplied from Free World sources. Examples are recent chrome ore, benzene and residual oil purchases. Increases could also occur in certain precious metals (other than gold), furs and forest products, iron ore, manganese, ferro-alloys, petroleum products, machinery and vehicles.

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The Soviet bloc's ability to increase exports to the U.S. is also hampered by absence of MFN treatment.

It is also assumed that in its military and industrial developments the Soviet bloc has developed technology, equipment and materials which would be of substantial value to the U.S. effort; however, release by the Soviet bloc of these developments would undoubtedly require the release by the U.S. of its comparable developments. Total U.S. imports, however, are unlikely even under favorable circumstances to rise above an annual level of \$150 to \$200 million within the next several years.

Although this purchasing power is small in terms of total Soviet bloc production, it might, in the absence of continued controls, be concentrated in certain commodity areas. The materials, technology and equipment which the Soviet bloc seeks would be worth far more than the dollar value indicates. Complete plants of advanced types, new kinds and types of machinery, new technological developments in electronics and communication equipment -- these translate into important savings in development of production, time and capital, in scarce facilities and in highly trained personnel.

Point 2. of the Staff Committee assignment reads as follows:

"As a corollary to (1) above analyze the effectiveness of U.S. unilateral controls in the light of current U.S. economic defense policy."

The following presentation continues the analysis provided for Point 1. and is part 4.D. in the analysis:

4. D. Effectiveness of unilateral U.S. controls in achieving basic U.S. control objectives:

(U.S. control objectives are discussed under 4.A. above).

1. Scope of unilateral U.S. controls toward Soviet bloc: there are two basic areas of these controls - (a) items for which a validated export license is required but which are under a presumption for approval for Soviet bloc destinations and (b) items and technical data for which a validated export license is required and which are under a presumption for denial for Soviet bloc destinations. Group (a) consists of a very large coverage of trading goods - probably 90% or more of the total field. Group (b) consists of items unilaterally denied by the U.S. for reasons of (1) strategic significance for Soviet bloc in combination with judgment that impact on Soviet bloc would be effective, (2) strategic significance and judgment of "clear military importance" even though no effective impact on Soviet bloc is clear and (3) a broad range of technical data excluding such pure research and published data available to general public.

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## 2. Effectiveness of unilateral controls:

- (a) Items under presumption of approval for Soviet bloc: both the controls and policy should continue as at present; are effective because they provide (1) opportunity for qualitative and quantitative review of developments for which constant investigation and evaluation cannot be effectively carried out - thus offering opportunity to prevent unintentional major losses to security, and (2) administrative leeway accomodates changes in policy toward entire Soviet bloc, USSR or individual satellites without open change in regulations. Deemed valuable in terms both security and foreign policy considerations.
- (b) Items under presumption of denial for Soviet bloc:
  - (1) Items deemed to have effective impact on Soviet bloc: controls have effective impact and no basic change necessary. These items total 39 (U items on Tab 9); during U.S. list review in 1958 they were judged to be of strategic significance and U.S. unilateral control viewed as effective in imposing adverse impact on Soviet bloc. Degree of effective unilateral control varied but in each instance was judged to have effective impact. List review conclusions still basically valid. Further information and analysis could lead to changes; normal procedures exist for such review.

Effectiveness of U.S. unilateral controls can be increased by anti-frustration measures. No problem foreseen in application of usual measures taken toward Free World countries to prevent, on a case-by-case basis, frustration of U.S. control policy so long as adequate provision continues for consideration foreign policy and other relevant considerations prior to decisions. State would oppose extreme actions.

Major issue exists as to expanding application Treasury's transaction controls. Defense and Commerce view is to expand transaction controls on selective basis where can be used effectively to increase impact on Soviet bloc and would not have serious demonstrable adverse impact on relations with friendly governments. Treasury would agree to extension of controls where they would demonstrably be effective but only if such action would not be harmful to present controls and would not produce foreign relations reactions of a harmful nature. It believes that extension of transaction controls over technical data would, in general, be ineffective and that desired results could be better achieved under Export Control Regulations. It believes that the burden of proof regarding extension of transaction controls lies with the proponents of this proposal. State Department opposes any expansion of transaction controls on basis any such expansion would be harmful to foreign relations. (See Tab 10 for fuller statement on issues).

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- (2) Items not deemed to have effective adverse impact on Soviet bloc: these controls should be continued even though have no effective impact on bloc. Out of the recent list review came 116 such items. Most of these items possess "clear military importance" and approval on such goods would harm trade control program and U.S. posture in Free World on cold war. No real basis for anti-frustration measures exist in this connection.
- (c) Technical data subject to presumption for denial for Soviet bloc: most technical data are subject to a denial policy. Effectiveness of current denial policy on proprietary technical data and services varies widely depending on the technical data involved and the type of U.S. controls being applied. Current policy provides for an area of approval of technical data to the bloc but does not spell out what this area is. Actual practice has defined this area as consisting of technical data not related to commodities subject to a denial policy. This takes no cognizance of such issues as Soviet economic penetration or broad expansion of the Soviet industrial base.

The Department of State and the AEC control certain technical data relevant to their fields.

Technical data on which denial policy can have effective adverse impact on Soviet bloc: the major areas of effective impact lie to some degree in industrial research fields but primarily in the translation laboratory and pilot plant developments into practical engineering of plant and process operation for economic and high volume production.

The impact on the Soviet bloc derives largely from the high costs in investment of time, advanced skills in some of which the Bloc is lacking and in facilities many of which are very costly and must be specially designed. The availability of such technical data could not only speed up performance under Soviet bloc production plans but could also permit major changes therein; indirectly, such denial also tends to limit the fields which the Soviet bloc might otherwise be able to utilize in later economic penetration and market disruption efforts.

Effectiveness of technical data control techniques: Current U.S. technical data controls consist of a mandatory control over direct or indirect exports to the Soviet bloc and a voluntary system over such export to Free World countries to prevent shipment to Soviet bloc through third countries. The extent to which the possible effectiveness described in the preceding paragraph can be achieved depends on the effectiveness of these control techniques. The mandatory control over direct shipment to Bloc is reasonably effective but could probably be improved by wider publicity. The mandatory license requirement for indirect export to Soviet bloc via third countries is much less effective. It will generally be

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effective where proposed shipments are so large or striking in character that the proposed shipment and enough of its details are brought to light fairly early. Good examples are several of the chemical plant technology cases now under review. In other instances, however, the cases may not be brought to light, foreign firms may not clearly know their responsibilities under U.S. regulations, U.S. technical data involvement may be initially unclear, and, in any case, they may export equipment and materials from which U.S. technology is extractable and not be in violation of present regulations. This voluntary system was intended to help remedy these defects. It has been helpful but remains inadequate. While it can and should be strengthened by wider publicity and consultation with industry, it cannot be relied on in the more significant areas. Since the system is voluntary, not all firms will consult before acting and technical data and services may be exported and long term contracts made without the control officials ever being aware of them so that questionable cases could be examined and precautionary action taken to insure continued denial to the Bloc. Even where cases are brought to attention of control officials the resulting advice need not be followed. The best assurance of effective control is a mandatory license requirement for exports of important technical data to Free World countries. Mandatory controls toward Free World countries have been under examination and inter-agency advice on Commerce proposals is being sought in the ACEP structure. At best the application of such mandatory controls will be over important but relatively narrow fields. Therefore, the effectiveness of the control techniques on the remaining technical data will require improvement in the application of current techniques.

Technical data on which denial policy has less clear adverse impact on Soviet bloc: Controls are effective in some areas and ineffective in others. Control should be maintained but extent of denial policy should be reviewed. In many industrial areas effective control techniques can clearly impose an effective unilateral impact on the Soviet bloc with the imposition of significant additional costs. Here denial policy should be continued. In other areas the significance of the technical data now under control may be unclear in terms of impact on the Soviet bloc. Here controls should be continued to permit preventive action where important data is uncovered but it is doubtful if current denial policy need be continued over entire area since in many of these areas there is clear availability from other Free World sources and denial may have no effective impact on Soviet bloc.

The relationship of Treasury Transaction Controls to technical data controls is discussed in Tab 10.

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Note on Diversions Relative to Soviet Bloc Need:

Even the limited enforcement and investigation facilities presently available have uncovered hundreds of violations of U.S. controlled goods each year which include numerous diversions to the Soviet bloc. Each year the cases for investigation have been chosen on an increasingly selective basis and the number of diversions to the Soviet bloc has been increasing. Of the 115 current investigation cases about 35% involve actual or attempted transshipments to the Soviet bloc.

The principal areas of current diversion efforts appear to cover electronic testing and measuring equipment, research laboratory equipment, electronic components, and boron materials.

Embargoed boron materials, for which the U.S. is the principal world supplier provide a good example of diversionary activity. Since 1955 more than 35 full scale investigations have been conducted on illegal diversions of boron materials. These attempts have involved all of the usual diversionary techniques and trading routes with new routes being constantly devised as earlier ones are blocked; some diversions have been prevented; others have succeeded. So far 17 firms (3 - U.S.; 14 - foreign) have lost their exporting privileges because of these diversions; other cases are now under compliance proceedings involve 7 other parties in five countries.

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Point 3. of the Staff Committee assignment reads as follows:

"Point 3. Analyze and present for policy consideration the trends within the CoCom in support of economic defense;

- (a) is support for economic defense as presently limited by the CoCom list strong enough to maintain the status quo or is there a prospect for further weakening?
- (b) are the present CoCom controls adequate to achieve a substantial impact on the military potential of the Soviet Union (Defense Department's judgment seemed to be to the contrary)?"

Generally speaking, the Staff Committee felt that there is Participating Country support for maintenance of the multilateral security trade control system, even though for somewhat varying reasons. Among them, some felt that the continuation of U. S. more restrictive controls than those maintained by most PC's gave a commercial advantage to the other PC's of a character sufficient to justify their support. While it was recognized that in the view of some PC's the multilateral security trade control system tended to increase international tensions, other PC's felt the controls had real security value because of their multilateral impact on the Sino-Soviet bloc. Lastly, it was felt that the maintenance of the CoCom provided a ready organizational framework under which prompt action could be taken in the event the cold war became hotter or in the event of actual military engagement such as occurred in North Korea.

With respect to Point 3. (a), it was the consensus of the Working Group that there is no evidence at present of any planned and determined attack on the existing CoCom controls. However, it can be reasonably anticipated that individual PC's will suggest some relaxations of controls on a selective basis in the October 1959 list review. It can also be reasonably expected that one or more of the PC's will propose that certain additional items or increased coverage of some existing items, again on a selective basis, be added to the CoCom lists in this same 1959 list review.

Of particular note, the Committee considered the question of tying the activities of the CoCom into closer alignment with the NATO since the security aspects of the controls are given a great deal more consideration in the NATO than in the CoCom. (More on this under Point 4.)

Point 3(b). As indicated in a detailed statement, the Department of Defense judgment is that the present CoCom controls are seriously deficient in achieving the maximum effective impact on the war potential of the Soviet bloc, mainly because the control over specific items and commodities has been narrowed drastically in most categories. An analysis of the results of the 1958 CoCom list review made by the Department of Defense is attached as Tab 11.

The Committee agreed in part to the inadequacy of the multilateral control of certain items and commodities as indicated by the Department

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of Defense. The Committee also agreed with the evaluation contained in NIE's 59, 100-4-54 and 100-8-58 that the overall impact of the security trade controls was marginal with respect to the buildup of the war potential of the Sino-Soviet bloc both before the 1954 and 1958 relaxations. However, the Committee believes that although this marginal impact - measurable in terms of years for certain categories - by virtue of its delaying effect on the Sino-Soviets' overall military/industrial base, has not been materially reduced. This was evaluated in CFEF 501/6, paragraph d on page 12 as follows:

The impact of trade controls on the Soviet bloc, even if the economic cost were maximized through far more stringent controls than have been applied, is small, either in terms of inhibiting military buildup or of retarding relevant economic growth. This impact, however, remains important to Free World security interests, largely because of the delays imposed, since the potential contribution of Free World exports would be utilized by the Soviets principally in the capital goods and military sectors.

and is still considered valid.

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Point 4. of the Staff Committee assignment reads as follows:

"Finally, this Task Group should present for consideration conclusions as to the implementation of current NSC policy not achieving the current policy's stated objectives."

The Staff Committee considered the statement of policy and concluded that, except with respect to a number of points mentioned below, implementation of the current NSC policy had been reasonably carried on in attempting to achieve the policy's stated objectives. While the Committee recognized that the stated objectives of the policy had not been achieved in a manner satisfactory to the members, it was the consensus that such an achievement was extremely difficult. In the final analysis, the scope and degree of multilateral security trade controls is a matter for each of the several governments involved to determine since the entire organization is completely voluntary in nature. Basically, therefore, the principal tool which is available to the U.S. in achieving its policy objective is one of persuasion. Of equal consideration is the fact that differing economic, political and social situations within the various participating countries bring about differing pressures. For example, the increasing standard of living brought about by increased production through recovery of Western Europe and Japan from World War II and the need for the maintenance of stable and expanding economies and high levels of employment has created pressures on these governments for expansion in export markets.

Specifically, however, the Group felt that closer attention might be given to fuller implementation of paragraphs 18 and 19 of NSC 5704/3 of the policy statement, recognizing, however, that actions of an implementing nature were quite diverse and frequently involved agencies and departments not normally within the economic defense community and, in some cases, American business itself.\*\*

In another important respect the Staff Committee felt that implementation of the objectives of the policy statement with respect to the control of technical data might well be the subject of greater attention. The complexities of this problem which, to a more or less degree, involve connotations of censorship, were fully recognized. However, the Committee noted that the problem was one receiving active consideration within the Department of Commerce and on which those agencies and departments involved in the economic defense program would shortly be requested to provide advice.

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\*\* State has reservation -- will discuss at Under Secretary Mueller's meeting.

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A third point relative to implementation of the policy concerned a closer tie of the security trade control program into the NATO organization. The Committee agreed that, while very little had been done toward implementing this provision of the policy, this relative inaction had not been a failure on the part of the agencies involved to deal with the problem, but rather a recognition that such actions must be carefully considered as to timing and initiation and that the decisions to defer action had been taken for good and sufficient reasons. In this connection, it felt that because of a growing concern within NATO over the threat posed by the Soviet Union in its economic warfare and penetration activities, the U. S. might find it desirable to introduce into the CoCom broadened terms of reference to encompass greater coordination with NATO in adoption of counter measures. As an alternative, however, perhaps consideration might be given by the U. S. to fostering consideration in NATO of these problems without the involvement of CoCom, but with the hope and expectation that such involvement might come without U.S. initiation.

Lastly, the East-West exchange program has an affect on the control of goods and technology, particularly the latter. For example, the permission granted to members of Soviet bloc delegations to the U. S. to view the modern equipment and benefits of advanced technology made it difficult and might have an adverse effect upon relations when, because of economic defense policy reasons, it was found necessary to deny these countries' exports of the same equipment and technology. However, the Committee noted that such visits were evaluated by a group other than that concerned with the economic defense policy to assure that a net advantage was expected to accrue to the United States from such visits and that the access of such groups to plants and facilities involved in strategic production or research was carefully regulated.

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